

**Transcript of**  
**Ambassador Robert B. Zoellick,**  
**U.S. Trade Representative**  
**Press Roundtable, Beijing, China**  
**February 17, 2003**

ZOELLICK: Let me just make a couple of points about this trip. Some of you may or may not know this. I have a particular interest in the economic relationship with China partly due to the fortuities of history. When I was at the State Department in 91-92, I was in charge of the effort to bring China into APEC and then, obviously, when I came back I had the job of finishing the accession into the WTO. During that time I have seen an amazing set of developments which, in my case, actually extend back to 1980 because I was living in Hong Kong at the time, the first time that I went into China. I'm always both interested and amazed when I have a chance to come back.

What I was trying to do with this trip is, having secured the WTO accession, we now have a new opportunity to redefine our shared interests. On the way here I was thinking that in some ways, as the Shanghai Communique of 1972 determined the course of political ties, so the WTO accession of 2001 opens the door to build an economic relationship for years to come. What we are now focused on is the task of WTO implementation, getting down to the basics of business. These obviously focus on the issues of today but in some of the discussions I had here, and part of the purpose of my other stops on this trip, are to emphasize the economic ties of tomorrow as well. We have near term problems to solve so I talked to the Vice Premier and Minister Shi about our agricultural tariff rate quota issues, biotech, soybeans and intellectual property issues, the capitalization requirements for financial firms. But there are also opportunities too, because I've certainly seen the growing influence of China on the Asia-Pacific economy and the global economy, when I was here for the APEC meetings and with the WTO accession process.

One opportunity for cooperation is on the Doha Development Agenda. I just came from a mini-ministerial in Tokyo. I reported on that meeting to my Chinese colleagues. We've been very pleased in that we've gotten some very good support from China on our agriculture proposal. We have with me Linnet Deily who is our ambassador to the WTO in Geneva and she's gotten some good support from Ambassador Sun there because given the fact that China constrained its use of subsidies and cut a lot of its tariffs, it has been supportive of our proposals to cut subsidies and tariffs. One of the things that I introduced today, and Linnet will follow up in a dialogue we're launching later in the week, is some of the other areas where we have market access proposals, manufactured goods and services. While China, I think, is absorbing its current tariff reductions on manufactured goods, I was urging them to look towards a longer time horizon because, under our proposal for the WTO to eliminate all tariffs in ten years, within ten years a very competitive China would be able to take advantage of this. As I alluded to, later this week one of my deputies, Ambassador Huntsman, who is not here yet, and Ambassador Deily are going to be launching a more detailed trade dialogue,

where we will roll up our sleeves and get into both the bilateral issues and some of the global issues.

I also wanted to take this opportunity on this trip to get a better sense of China's implementation in the WTO by going outside of Beijing. When I have done this in the past, obviously I talk to the officials, I talk to the American Chambers of Commerce – but I wanted, in particular, to try to go someplace further out so later today I am heading off to Chongqing to try to talk to local officials. I'm going to have a meeting with the students because I've been very impressed with the educational effort that the Chinese have made about the WTO. I'm going to visit a relatively new Ford plant which will give an opportunity to look at both the benefits of investment and job creation. I also hope to visit the Stillwell Museum since I have a big interest in military history. Again I think that this gives me an opportunity to see, although very briefly, a different face of China, getting away from the coast.

I'm then going to Shenzhen. As I said, the first time I was in China was in Guangdong in 1980 and I haven't been back to that part of China so it's going to be, I'm sure, a stunning set of changes. Here I'm going to meet the mayor. I'm going to try to talk with some people of a part of China that has already seized the opportunity of openness but will now face different challenges with WTO accession, challenges of changes elsewhere in China and competition with other parts of China but also globally. I'm going to try to stop at some of the Wal-Mart sites which gives you both faces of the trade relationship because many of the Wal-Mart stores in the United States buy a lot of Chinese products. It's good for American consumers but also American retailing is spreading to China.

I guess to encapsulate this, what I see this trip as trying to emphasize is a new and deeper phase in Sino-American economic relations. There's obviously a lot of focus on the political and security side. WTO accession allows us now to go beyond that long-sought goal of getting China into the WTO and say what does that mean. Not only what's it mean in terms of implementing the rules but what's it mean in terms of the nature of the economic ties. All of you are obviously based here. In the United States I get a lot of questions and inquiries from the business community and from Congress and others about the U.S.-China economic relationship. In fact, the week I get back I'll be testifying before the Congress and I expect I'll get questions. This gives me a little chance to see things first hand and go beyond the Beijing officialdom to talk to some of the people in some of the provinces about it. So, fire away.

QUESTION: Sir, Ann Veneman on January 31st...says that China has produced new, redundant food safety tests and field trials....disrupt the U.S. soybean status. Can you tell us what the problem is? Is it a threat to this year's soybean trade and what are you doing to try to resolve this?

ZOELLICK: To give you a little context of this, over the past year or so the United States at all levels, in fact this was an item that was discussed by the presidents in Crawford, have been trying to make sure that one of the major benefits of China's accession to the WTO which has improved opportunities for U.S. farmers to export their products, isn't undermined by some of the regulatory developments on biotechnology. What we first worked out was an arrangement of interim certification for the soybean products as the Chinese were conducting field tests on the soybeans and determining, by their standards, their ability to import them. That interim arrangement runs through September of this year. The understanding was that the field trials were conducted last year and the data was supposed to be collected last year.

What that letter from Ann Veneman refers to is that we learned, in January, from the Ministry of Agriculture, that they wanted to conduct additional field trials. Now, we have some concerns about that because we believe they have the data and we don't understand the need for additional field trials. But, one of the points that I relayed was that, given the fact that soybeans can only grow so quickly, we have to insure that there isn't a disruption in the soybean trade as these field trials are being conducted. We need to follow up on this but I feel we've got some good recognition and some positive comments on that by the Chinese authorities I met to make sure that there isn't a disruption in the soybean trade as they go through these additional tests. Now that's not the end of it because we want to make sure that after the tests the product comes in.

As you know, the United States feels rather strongly that biotechnology offers tremendous possibilities for development in agriculture. Indeed, in the developing world it's important, as I have seen in Africa, to be able to increase productivity, deal with crops in areas of drought, pest resistant strains and other things. As you probably know, China has a very active biotechnology development itself. We just want to make sure that this is not being used in a protectionist way.

QUESTION: You mentioned that when you talked with Chinese officials about...capitalization of financial institutions I assume you were talking about the limits that...bank borrowing...(inaudible)

ZOELLICK: That wasn't what I talked about. What I was talking about was that obviously if you look at the overall picture for U.S. and foreign financial institutions there's been a large entry in the market place. One of the things that I talked with Vice Premier Wen Jiabao about was the fact that, as China promised, they have gone forward with additional licenses including for additional insurance firms, a number of them being U.S. firms. What I was referring to was the fact that the regulatory authorities have set capital requirements for banks, insurance firms, securities firms. While any government has to have the right to have prudential regulation, the capital requirements seem extremely large relative to what you encounter elsewhere around the world. We just want to be concerned that prudential requirements are not being used as a way of foreclosing market opportunities for foreign firms. We have worked well with the Chinese authorities on the financial sector. I was up in New York two weeks ago talking to a number of investment banking firms that are pleased with the business relationships that they are developing here. When you come on a trip like this you are partly dealing with some immediate problems like soybeans and the tariff rate quotas, which were very high on my list. Now there is one where I'm trying to say "look this is something we're going to have to watch to make sure it isn't used in a negative fashion in the future." Then there are some longer term things, whether it be cooperation in the WTO or I was trying to suggest that since you will have new leadership team here we should take this opportunity to look towards a deeper economic relationship. Given the fact that you have very active U.S. business ties here, you have 52 billion dollars of foreign direct investment here, about 5 billion of which was U.S. as I understand, and some of that business is used for exporting but increasingly it's being produced for the domestic market. One of the other ideas I suggested was that we should have more regular discussions about the business networks being developed and how they see that, the problems they see, the opportunities they see, and how we see it. I have a lot of input on this from American firms and I would like to make sure I understand the Chinese side too.

QUESTION: ...Washington doubted Beijing could follow its promise to free trade as WTO rules more and more, especially in the field of agricultural and services. What are your comments and viewpoints now?

ZOELLICK: You cited something from June or July of 2002, is that what you said?

QUESTION: Yes, July.

ZOELLICK: In December of 2002, my office did a rather large report, which I'm sure the Embassy has, that looked at China's overall implementation. As you would expect for such a massive task, there's been some very impressive progress in a number of areas. In fact, both the Vice Premier and Minister Shi reviewed for me the tariff reductions and some of the quotas that were put in place and the laws that have been changed. But there are other things that haven't worked as well. What I have said in the United States and what I have said here is, in the context of the scope of China's changes, I think the performance has been pretty good. When one recognizes that this requires changes in local ordinances and getting the information out to provinces and 1.3 billion people, one doesn't expect change overnight. On the other hand, there are areas where we want to be sure that China moves as rapidly as we believe it can.

So, for example, in the case of the tariff rate quotas for agriculture products, I think everyone generally acknowledged that the first round of tariff rate quotas had problems in them. Our Chinese colleagues acknowledged this was the first time they did it, so they actually made some improvements. But what I have stressed is that having had that problem once we really don't expect to have that problem on a continuing basis. So, we need to get improvement on some of these things. Let me give you an example. Some cotton exporters from the United States have found that the quotas for import are linked to reprocessing for export. Well, you're not supposed to do that under WTO rules. That's the sort of issue that we have to deal with. Another issue is the question whether you add additional licensing requirements once you've allocated your quotas. Another issue is to make sure the quota allocations are in commercially viable sizes. Those are the issues we have to try to address. I think we made our points. I was pleased with the response we got and we'll have additional follow-up later in the week at a more detailed level with the Vice Ministers.

QUESTION: I'm from the Financial Times. Is the U.S. concerned about the size of China's trade surplus with the U.S. in 2002, which, I think according to your figures, comes in at over US\$100 billion? Also in the context of the fact that many of China's exports are quite cheap, there have been accusations that China is exporting deflation. The second question is related to that and that is that your figures and the Chinese figures have a huge discrepancy. The Chinese figures show their trade surplus at about less than half than what your figures show. And even if you include all of the exports that went from China to Hong Kong, it still doesn't add up to a US\$100 billion. Could you explain the huge discrepancy between the Chinese figures for their trade surplus and yours?

ZOELLICK: As for your first question, any time you have very large numbers like that, it certainly draws attention in the United States. So, it's a point of sensitivity. It's one that I get asked about by members of Congress and others. I would look at another number that I think is important and that is that in rough figures my understanding was that about a third of China's growth came from exports and about a third of their exports go to the United States. So, the U.S. market is very important for China's growth. Now, we believe China's growth is

very important. We're trying to get improved growth all around the world. Even though Japan had slightly higher numbers than they expected in this most recent report, when I talked with the Japanese economic forecasters they expect it to be pretty stagnant again in the next year. Europe is pretty stagnant. I travel a lot around the world and everyone looks to the United States and frankly, we need more growth. What this emphasizes is trade and economics is not a zero-sum mercantilist game. It's a win-win process. From the China I first visited in 1980 and the China today, you can see the benefits of prosperity for the Chinese people, the changes in the society and its benefits for everybody else. This brings us to the point that obviously, from an economics point of view, bilateral trade deficits can only tell you so much. Now the bigger picture in the U.S. case is that we have a very large overall current account deficit, US\$400-500 billion. But this comes back again to the question of trying to get larger global growth.

To come back to your point of the big number, however, what I expressed to my Chinese colleagues is, it obviously raises questions with some in Congress and some in the business community and therefore it's all the more important that I be in a position to say that China is following through on its accession obligations and that we can sell the products we should be able to sell. That's part of what I was doing here. I'm not someone who believes that trade balances are the goal of economics and trade. I'm not someone who believes this is a zero-sum calculation. I believe it's a win-win prospect. I think that both China and the world are much better off with the growth we have seen. But it does put a political pressure on the need to make sure we have fair access. There are other parts to the story as I alluded to. You have a large number of U.S. firms doing business here. Some of them have brought China into their global sourcing network and so, they import things to China, they bring in capital goods to China, they export things from China. One of the more interesting developments, and one of the reasons I want to go to Chongqing too, is you're getting an increasing number of businesses now operating here for the domestic market. This is one of the large potential, growing domestic markets. To me, the figures you cite are most important in enabling me to say to my Chinese colleagues, "Look you really do have to make sure you give us a fair opportunity as you're supposed to under the rules and, by the way, that helps you just as it helps us."

Protectionism doesn't help my country and it doesn't help theirs. The one difference I would have is you referred to them as cheap goods, I would refer to them as inexpensive but quality goods.

What was the second part?

QUESTION: The second bit was the difference between their figures and your figures. The old argument is that it's explained because you count exports from Hong Kong, but even if you add in that bit, it still doesn't get to the same number.

ZOELLICK: I think for the purposes of the policy discussion the main point is it's a large surplus by their numbers or our numbers. I was talking, actually, with the Ambassador a little bit about this and Hong Kong is clearly part of the discrepancies and there may be other questions with customs valuation methods or other issues. I think the key point is China is selling a lot to the United States. That's good for our consumers and it's good for their growth, but it does mean that we have to have a fair shot at selling products here.

QUESTION: UPI. Next month, China is going to be having its National People's Congress. I'm wondering what you're looking for on the legislative agenda that would help engender the type of trade that you've been talking about?

ZOELLICK: Obviously, there are a whole host of laws and rules that have to be changed as part of the WTO implementation process. But as a general matter, I think China has tried to follow through on this pretty well. In fact, our focus is more on the enforcement side. I talked with both the Vice Premier and Minister Shi about the enforcement of intellectual property rights. But this is again why China is a particularly interesting place because you build interests within China that recognize the benefits of intellectual property protection because of the software development here and the creative industries development here. As I discussed with Minister Shi, they put a lot of laws in place. They know there has been rampant piracy. He talked to me about some of the criminal penalties that they were putting in place, which is very important if you're going to be effective on this. This is an area where, frankly, our businesses will work with us and the Chinese government and Chinese businesses share the same interest.

Last time I was in Beijing, I talked to a number of young business entrepreneurs here, a number of them in the software and information technology industry, and so I think this is one where there is a commonality of purpose. This is again where the vastness of China as a country and the differences in some localities is part of the issue here. It's one reason actually I wanted to talk to the students in Chongqing is that I've been intrigued with the pictures and reports I've got of the comic books about WTO accession. I mean, goodness knows, if we could explain to our public about the WTO, we'd be well off. I'm fascinated to take a university audience and say, "Okay, what do you hear about this? How does this relate to your future and so on and so forth." Part of this trip is also to listen and to learn how they view things.

QUESTION: Inaudible

ZOELLICK: Let me start with the second one and then I'll go to the first. I had a chance to meet Wen Jiabao in April of last year, so this is my second meeting. I've been very pleased and impressed with both. I also had a chance to meet Hu when he came to Washington. They're obviously highly intelligent, capable people. I've obviously had a chance to talk to Wen Jiabao longer and I think he shares some of the same interests that I stressed about the long term economic relationship and trying to consider the strategic interests of that just as we do on the political and security side. As you probably know, he's had responsibilities for two challenging sectors, agriculture and finance. We've talked somewhat about that because my business background was in the financial world. In the nineties, I actually came here at the request of the People's Bank of China as a private individual to help talk about setting up housing finance markets. I have agricultural ties from my "ruts" as we say in Illinois. He's had difficult portfolios and he's done well with them. It's one reason why I was pleased that we could meet today, because this goes to your first question, in addition to rolling up our sleeves and discussing the hard work of implementation, I wanted to plant some seeds for further discussions. One element was the Doha Agenda and having more in-depth discussions about our goals in that agenda and our proposals and see how we can cooperate more with China.

Another one that I suggested was to try to have more discussions about how we and China see the regional and global economy. Obviously, at the time of the 1997 financial crisis in

East Asia, China's stability and growth was very important. Two or three weeks ago, I was in Africa. A week or two before that I was in Latin America. I see these things and I'm interested in comparing notes and I think it would be healthy if we do that over a long term. I suggested, as one of these questions mentioned, that it would be helpful for us to have the Chinese leadership's view of the business and investment patterns. This isn't just a question of export/import numbers or investment numbers. Things are changing in how businesses operate, for example, the sourcing networks. This helps affect how we do our trade policy.

Let me give you an example from a different context. When we completed our free trade agreement with Singapore in December we included an integrated sourcing initiative that enabled us to draw in some information technology components from Indonesia because our tariffs in this area were already zero. But the question is could we remove some of the paperwork of rules of origin and customs procedures to create incentives for investors to go to Indonesia and particularly, the offshore islands of Batam and Bintan, as part of their overall sourcing network. I was very pleased at this meeting I was just at when I talked to my Indonesian and Singaporean counterparts that they've said the Japanese firms are already trying to start to plan and take advantage of this. From the Chinese side, I used an example at the Tokyo meeting of China's experience joining the Information Technology Agreement where it lowered tariffs to zero. Some people might say, "Oh well that creates too much competition for Chinese information technology firms." But what we saw from a development point of view is that actually encouraged China's inclusion in a global sourcing network for information technology components. Part of my job is to be in touch with people in the American business community to understand how they see the changing business environment and how they are affecting locations of production, networks of production, the impediments to e-commerce or other new developments. I'd be benefited if I get a sense of the Chinese leadership's view on that. So that's a third set of categories.

But the larger point was basically to say our two countries focused for so many years, I think it was fifteen in total, on China's accession to the WTO, that this was the goal. This was the rallying point of the economic relationship for 15 years, including when I was in prior government service. We've now done that. We clearly have to focus on the immediate implementation. But shouldn't we be looking towards a longer term goal of our economic relationships? So, I was just offering some ideas and encouraging, as you suggest, a new Chinese leadership to come up with their ideas for us.

**QUESTION:** Is this something that the U.S. expects to put a dent in or are you waiting for the bigger equation of supply and demand to finish things? What's the strategy here?

**ZOELLICK:** It's a changing problem. Let me give you one example of the change. In the free trade agreements we negotiated with Chile and Singapore, what became a priority issue for a lot of the business software industry and the entertainment industry was establishing new intellectual property rights for a digital world, and in particular the question of, as you downloaded software or music or movies into your memory was there a property right even though you never had a hard copy, you never had a physical form? Because if you didn't people could obviously send it out on networks. So we were establishing property rights of a different type for the changing area. I think part of what I hope to do with the Chinese authorities is, first, establish this as a mutual interest. And I think we are well on our way to doing that given the creative industries here. Second, is to encourage, and I think this part has already been well on its way, make sure you have the right legal structure. Then third, step up the enforcement action. One point that I think is important and is not applied in some

countries, but I was pleased again to discuss this with Minister Shi, is the need for criminal penalties. Because, sometimes if it's just financial penalties, it becomes a cost of doing business. So, like you, wherever I go in the world you see major problems of pirating so this is not a problem that is done overnight. But then the next step is, I want to try to build a culture of cooperation in intellectual property so as we turn to the next set of issues, particularly those related to the digital world, that we can try to establish the right standards. I know the Wall Street Journal still charges people for their copy. I think the L.A. Times, you can get it for free.

LAT TIMES: If you register.

ZOELLICK: If you register, ok. What's the registration required? Do you have to pay?

LA TIMES: No, it's just data. Email.

ZOELLICK: So it's for advertising?

LA TIMES: Basically.

ZOELLICK: Do I have one more? I want to make sure. Have we gotten all the Chinese? Do you have a question? Please.

QUESTION: (inaudible)...U.S.textile delegation...to China to view this industry? Why?

ZOELLICK: We did, you said? Or we are?

QUESTION: You did.

ZOELLICK: Have we? I don't know. Have we?

MINISTER-COUNSELOR FOR ECONOMIC AFFAIRS ROBERT WANG: (inaudible)

ZOELLICK: Do you want to answer the question? Is it business?

WANG: They are here this week from the ITC....(inaudible)

ZOELLICK: Here's the big issue on apparel. The big issue on apparel is that in the last WTO negotiation, the Uruguay Road, the United States agreed to end all its apparel quotas. So those end at 2004. That means the only barrier we'll have will be tariffs, and while our apparel tariffs are higher than our average tariffs, our average tariff is under 2 percent. Our apparel tariffs are 10 or 11 percent. This is going to have a vast transformation in the world apparel industry because this is less a direct issue for the United States and more for many other developing countries. Because China is seen as being very competitive in this field and we have preference programs for example with Sub-Saharan Africa and some of the Latin American countries and the question is, "How will they be able to compete with China?" I've talked with various of the retail firms and the retail firms want some diversity of sources of supply, as you would imagine. I think that one of the points that actually I was discussing with Minister Shi and his colleagues was to say this is all the better reason why they may wish to support our proposal in the Doha negotiations to eliminate all tariffs on manufactured goods. What has happened in the United States is that the apparel industry has shrunk quite



considerably. You now have specialized products but you still have some of a textile as opposed to apparel industry, again with specialized products. Most of those members say, look we're willing to compete as long as it is a level playing field. In other words, we have reciprocity. Because some of the countries that have been most adamant about urging us to remove our tariffs actually have tariffs much higher than we do. So there may be some commonality here if we can try to reduce and cut tariffs. But, as one of the questions also asked, one of the points I try to make within the United States is that if you increase the price of apparel with barriers, who do you hurt most? You end up hurting often low and moderate income people who pay a higher percentage of their income on clothes and food. That is one reason why when I made our WTO proposal I had Wal-Mart come by and have two baskets of goods, one with tariffs removed and one without. One was about 130 dollars and one was about 95 dollars. It shows the savings. Our guys are willing to compete if there is reciprocity at the same level. So this may be an area of cooperation.

QUESTION: Some U.S. soybean traders based here say they don't hear anything about...(inaudible)...resolved by July...(inaudible)... You said you heard some positive things today. What exactly were they and are you confident that....?

ZOELLICK: We hear the same thing about traders and that's one reason why I emphasize the point and one reason why I hope the issue will be resolved very soon. I got positive responses but these are meetings where I want to make sure we follow up. This is the exact point I made about market uncertainty. I said it affects farmers having to decide what they're going to grow if they don't know whether the market will be there to sell. Those are the exact points that I stressed. I don't want to be premature about saying the problem is solved, but I got a very positive response and we have to follow up on the details.

QUESTION: Are you still concerned? Is this a point of concern?

ZOELLICK: I don't believe in debating terms. It's an important issue. I raised it. I got a positive response. We have to follow up because we have to get it solved. Look, if it is an issue raised between President Bush and President Jiang, it certainly suggested the United States puts a high priority on the issue.